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ECONOMIC INTELLIGENCE WEEKLY

9 October 1974

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INTERNATIONAL TRADE

US Trade Surplus with Western Europe Mounts; The surplus jumped from \$1 billion in the first seven months of 1973 to \$3 billion this year, with both US agricultural and industrial exports showing strength. [redacted] (See page 7.)

obtained from France as the standard for credit talks with other Western countries. [redacted]

China-Philippines Trade Agreement; Chinese oil will be exchanged for Philippine lumber, coconut products, sugar, and copper. [redacted] (See page 13.)

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OPEC: Mammoth Oil Receipts; The OPEC countries will receive about \$94 billion for their oil in 1974—\$33 billion in the first half, \$61 billion in the second half. [redacted] (See page 2.)

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LDCs Doubly Hit by Trade Trends; The trade balance of non-OPEC developing countries has been worsening with the industrial countries as well as with the oil countries. [redacted] (See page 3.)

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LDCs: Financial Resources Dwindling; The successful financing of the large first-half trade deficit masked an increasingly serious payments position. [redacted] (See page 6.)

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USSR: Long-Range Prospects for Hard Currency Trade; The sharp increases in world prices for oil, gold, and other primary products have dramatically improved Soviet ability to import Western plants and technology over the next several years. [redacted] (See page 8.)

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French Negotiators are currently in Moscow to offer the USSR approximately \$1 billion in long-term credits at 7.3% to 7.7% for purchases over the next two years. Paris wants to conclude a new accord with the USSR before pursuing discussions on the proposed gentlemen's agreement among the EC, Japan, and the United States on export credits. Moscow is sure to use any low rate

INDUSTRIAL NATIONS

Bonn Moves to Reshape EC Agricultural Policy; West Germany is tired of paying steep food prices and the lion's share of spiraling EC bills. [redacted] (See page 1.)

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Italy's Industrial Production slipped last month. August statistics show that factory output decreased 4.6% from August 1973, suggesting that the expected downturn in economic activity has begun. On the positive side, the trade deficit shrank to the lowest level this year and a surplus of \$89 million was recorded in the non-oil account. [redacted]

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Canada's New Legislative Program, outlined at the opening of Parliament, includes measures to create a national petroleum corporation and to require more processing of raw materials in Canada. Another bill calls for Ottawa to intervene whenever a foreign-owned company is prevented from filling export orders because of the policy of the company's government. Prime Minister Trudeau should have no trouble getting his program enacted, since he now has a commanding parliamentary majority. [redacted]

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OECD Secretary-General Concedes Economic Weakness; Van Lennep now doubts early upturn in the industrial economies. [redacted] (See page 12.)

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AGRICULTURE

Soviet Attempt to Buy Grain; The current effort to buy 3.4 million tons from US dealers coincides with crop difficulties, which have caused us to trim our estimate for 1974 from 198 million to 195 million tons, 10 million tons below plan. [] (See page 12.)

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USSR: Sugar Outlook Dims; Unseasonal cold weather is cutting the crop at least 5% short of plan. [] (See page 12.)

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Mexico: Continuing Heavy Need for US Corn; Early frost, drought, and hurricane Fifi are frustrating Mexican efforts to reduce dependence on US corn. [] (See page 12.)

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MONETARY DEVELOPMENTS

The Dollar closed mixed against major foreign currencies last week. The European joint float currencies gained from 1% to 1.3% against the dollar while the lira, French franc, and Japanese yen declined. The British pound remained unchanged.

Gold was fixed at \$155.10 per ounce in London yesterday afternoon, down slightly over the week, which saw sharp daily movements. []

PUBLICATIONS OF INTEREST

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North Korea's Economic Tilt Toward the West (See page 13.)

The Economic Situation in South Vietnam, September 1974 (See page 13.)

COMPARATIVE INDICATORS

Recent Data Concerning Internal Economic Activities (See page A-1).

Recent Data Concerning External Economic Activities (See page A-2.)

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Articles

BONN MOVES TO RESHAPE EC AGRICULTURAL POLICY

Chancellor Schmidt's initial rejection of the recent EC decision to raise agricultural support prices is another skirmish in a protracted struggle to revamp the CAP. The compromise worked out last week is merely a short-term, patchwork solution.

West Germany is pushing hard for reform because it is fed up with paying the lion's share of spiraling EC bills while other members reap most of the benefits. This year, Bonn is financing 28% of planned Community outlays of \$6.1 billion. About three-fourths of the EC budget goes to support the CAP.

EC agricultural policy has been in trouble for several months:

- rising production costs have cut into farm incomes despite increasing CAP assistance;
- cessation of official purchases of beef because of overburdened storage facilities has allowed market prices to fall below support levels;
- France and Belgium have unilaterally introduced measures to assist their farmers, in violation of EC rules, to the annoyance of the Germans in particular;
- border taxes imposed to offset currency changes have continued to hamper operation of the complex pricing system;
- Italy has imposed import-deposit requirements that interfere with agricultural trade within the EC; and
- sugar shortages in the United Kingdom have dramatized British objections to EC membership (the EC has ruled out special relations with sugar-exporting Commonwealth states).

In exchange for its final acquiescence to a 5% rise in support prices, Bonn was promised that the increase would be deducted from next spring's scheduled

Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed.

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adjustment. It also extracted pledges that future unilateral measures would be submitted to the Community for prior approval and that the CAP would be subjected to a fundamental review.

Bonn's desire to reduce the costs of CAP implies that the relatively inefficient West German farmer may be headed for more difficult times despite his political clout. The non-farm segment (90%) of the population has become more and more critical of rising food prices. Recent studies claiming that farm incomes exceed the national average have been widely publicized in the West German press, fueling consumer dissatisfaction with high food prices. The government seemingly views CAP reform as a key part of its anti-inflation fight.

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OPEC: MAMMOTH OIL RECEIPTS

OPEC countries will earn more than \$100 billion from oil exports in 1974. Because of the average two-month payments lag, they will actually receive about \$94 billion -- \$33 billion in the first half and \$61 billion in the second half. Second-half payments will fully reflect last January's price increases and most of the July increase.

OPEC Oil Receipts, 1974

	Billion US \$				
	1st Quarter	2d Quarter	3d Quarter	4th Quarter	Total
Total	11	22	31	30	94
Estimated receipts (excluding retroactive payments)	11	21	24	25	81
Estimated retroactive pay- ments by oil companies	1	7	5	13

Oil receipts in the second half will be boosted by anticipated retroactive payments of \$13 billion. When concessionaires complete such payments in early 1975, OPEC revenues should level off. Receipts will bulge in October as a result of quarterly payments to certain producers and a probable \$2.2 billion retroactive

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payment to Saudi Arabia. As a consequence, extra large amounts of oil money may flow to the New York market. A similar bulge in July was handled smoothly by private markets, but both Western bankers and officials for OPEC countries note that the Eurodollar market is now saturated with short-term oil dollars.

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LDCs DOUBLY HIT BY TRADE TRENDS

The trade balance of non-OPEC developing countries has been worsening, not only with oil countries but also with industrial countries. Data for the first half of 1974 show a \$3 billion adverse shift in their trade with Japan, West Germany, and the United States alone, compared with first half 1973. This was on top of a \$14 billion deterioration in their balance with OPEC countries. In trade with all OECD member countries, the deterioration was an estimated \$4 billion.

The tables present data on the merchandise trade of five major developed countries (the United States, the United Kingdom, Japan, West Germany, and Canada) with the OPEC and non-OPEC developing countries. The remarkable increase in exports to the non-OPEC countries in the first half of 1974 is attributable more to price than to volume increases. The deterioration in the trade balances of non-OPEC developing countries under these circumstances suggests that the oil burden of developed countries is being partially shifted to these countries. The non-OPEC countries are trapped between an inelastic demand for grain and fertilizer and limited ability to raise their own exports to the recession-hit developed countries. Furthermore, certain of these countries – such as Brazil, the Philippines, Taiwan, and South Korea – regard capital goods and industrial raw materials as vital to their growth and are unwilling to cut back these imports.

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Table 1

Merchandise Trade, Selected Developed Countries¹

Million US \$

	1973-1st Half			1974-1st Half			Trade Balance Change
	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance	
United States							
Total trade	33,217	33,270	-53	48,052	46,992	1,060	1,113
Developing countries	9,201	9,139	62	15,210	17,894	-2,684	-2,746
OPEC	1,699	1,831	-132	2,740	6,505	-3,765	-3,633
Other	7,502	7,308	194	12,470	11,389	1,081	887
United Kingdom							
Total trade	14,609	16,242	-1,633	18,196	23,834	-5,638	-4,005
Developing countries	3,161	3,528	-367	3,589	6,484	-2,895	-2,528
OPEC	852	1,361	-509	1,030	3,923	-2,893	-2,384
Other	2,309	2,167	142	2,559	2,561	-2	-144
West Germany							
Total trade	29,810	22,787	7,023	43,033	30,000	13,033	6,010
Developing countries	3,288	3,580	-292	5,495	6,681	-1,186	-894
OPEC	982	1,459	-477	1,609	3,965	-2,356	-1,879
Other	2,306	2,121	185	3,886	2,716	1,170	985
Japan							
Total trade	15,927	14,284	1,643	23,589	26,367	-2,778	-4,421
Developing countries	6,252	5,517	735	10,613	13,922	-3,309	-4,044
OPEC	1,102	2,660	-1,558	1,975	8,924	-6,949	-5,391
Other	5,150	2,857	2,293	8,638	4,998	3,640	1,347
Canada							
Total trade	12,282	11,321	961	15,614	15,209	405	-556
Developing countries	985	1,019	-34	1,366	2,083	-717	-683
OPEC	152	404	-252	154	1,145	-991	-739
Other	833	615	218	1,212	938	274	56

1. Official data of value of exports and imports, by country of origin and by country of destination, converted to US currency and/or f.o.b. values where required, with the following exceptions: for Canada, reexports are excluded from developing country data; for the United States, exports are f.a.s. and imports are on customs value basis; and for Japan, certain trade data have been interpolated for developing countries.

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Table 2
Trade Balances, Selected Developing Countries

		Million US \$						
		United States ¹	United Kingdom ¹	West Germany ¹	Japan ¹	Canada ¹	All Countries ²	
Argentina								
First half 1973	Exports	116.8	127.5	180.1	58.5	5.2	1,488	
	Imports	171.1	53.4	104.3	74.4	22.3	926	
	Trade balance	-54.3	74.1	75.8	-15.9	-17.1	562	
First half 1974	Exports	180.3	121.6	136.5	70.2	10.4	1,840	
	Imports	238.2	46.6	153.8	152.2	18.8	1,350	
	Trade balance	-57.9	75.0	-17.3	-82.0	-8.4	490	
		Trade balance change	-3.6	0.9	-93.1	-66.1	8.7	-72
Brazil								
First half 1973	Exports	569.2	149.0	256.2	138.3	37.7	2,645	
	Imports	745.1	125.9	320.1	229.0	38.5	2,500	
	Trade balance	-175.9	23.1	-63.9	-90.7	-0.8	145	
First half 1974	Exports	740.6	202.1	251.2	228.3	49.8	3,076	
	Imports	1,488.8	158.9	683.1	551.9	113.1	5,008	
	Trade balance	-748.2	43.2	-431.9	-323.6	-63.3	-1,932	
		Trade balance change	-572.3	20.1	-368.0	-232.9	-62.5	-2,077
India								
First half 1973	Exports	207.4	150.4	53.6	244.8	15.8	1,353	
	Imports	198.8	166.4	99.9	152.7	84.6	1,213	
	Trade balance	8.6	-16.0	-46.3	92.1	-68.8	140	
First half 1974	Exports	270.5	199.3	71.4	323.3	22.3	N.A.	
	Imports	202.4	147.5	178.1	276.2	47.9	N.A.	
	Trade balance	68.1	51.8	-106.7	47.1	-25.6	N.A.	
		Trade balance change	59.5	67.8	-60.4	-45.0	43.2	N.A.
South Korea								
First half 1973	Exports	467.8	23.7	570.0	38.3	38.5	1,241	
	Imports	606.9	25.6	421.8	72.5	25.3	1,720	
	Trade balance	-139.1	-1.9	148.2	-34.2	13.2	-479	
First half 1974	Exports	604.5	59.8	516.5	78.3	65.4	N.A.	
	Imports	795.7	48.7	669.3	127.5	42.9	N.A.	
	Trade balance	-191.2	11.1	-152.8	-49.2	22.5	-795	
		Trade balance change	-52.1	13.0	-301.0	-15.0	9.3	-316
Pakistan								
First half 1973	Exports	16.7	36.9	21.2	78.5	3.9	520	
	Imports	101.5	33.8	38.5	33.9	7.2	403	
	Trade balance	-84.8	3.1	-17.3	44.6	-3.3	117	
First half 1974	Exports	30.5	51.8	27.6	37.4	8.6	199 ³	
	Imports	225.4	51.6	57.6	86.1	56.0	315	
	Trade balance	-194.9	0.2	-30.0	-48.7	-47.4	-116	
		Trade balance change	-110.1	-2.9	-12.7	-93.3	-44.1	N.A.
Paraguay								
First half 1973	Exports	8.6	17.8	20.3	4.9	0.4	74	
	Imports	14.0	4.9	9.8	1.7	0.2	49	
	Trade balance	-5.4	12.9	10.5	3.2	0.2	25	
First half 1974	Exports	8.6	15.1	11.6	4.6	1.0	22 ³	
	Imports	12.8	7.7	13.7	2.6	0.3	27	
	Trade balance	-4.2	7.4	-2.1	2.0	0.7	-5	
		Trade balance change	1.2	-5.5	-12.6	-1.2	0.5	N.A.
Philippines								
First half 1973	Exports	273.8	9.2	47.8	336.2	4.6	862	
	Imports	211.9	28.8	33.8	267.1	13.5	662	
	Trade balance	61.9	-19.6	14.0	69.1	-8.9	200	
First half 1974	Exports	428.7	16.2	47.0	505.2	6.1	1,082 ⁴	
	Imports	372.8	56.7	74.4	410.2	21.6	1,114	
	Trade balance	55.9	-40.5	-27.4	95.0	-15.5	-112	
		Trade balance change	-6.0	-20.9	-41.4	25.9	-6.6	N.A.

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Table 2

Trade Balances, Selected Developing Countries
(Continued)

		Million US \$					
		United States ¹	United Kingdom ¹	West Germany ¹	Japan ¹	Canada ¹	All Countries ²
Sri Lanka							
First half 1973	Exports	14.5	26.6	6.4	17.9	4.0	181
	Imports	14.4	13.1	6.2	9.9	3.1	185
	Trade balance	0.1	13.5	0.2	8.0	0.9	.4
First half 1974	Exports	20.7	29.6	11.5	9.6	6.6	739 ³
	Imports	9.9	10.5	19.1	20.3	2.2	561
	Trade balance	10.8	19.1	-7.6	-10.7	4.4	178
	Trade balance change	10.7	5.6	-7.8	18.7	3.5	N.A.
Taiwan							
First half 1973	Exports	799.4	47.4	92.3	343.8	72.6	1,768
	Imports	457.3	23.2	75.7	672.1	14.3	1,445
	Trade balance	342.1	24.2	16.6	-328.3	58.3	323
First half 1974	Exports	1,012.9	76.9	121.4	476.9	106.3	1,405 ³
	Imports	806.6	57.0	174.2	1,085.1	23.6	1,261
	Trade balance	206.3	19.9	-52.8	-608.2	82.7	144
	Trade balance change	-135.8	-4.3	-69.4	-279.9	24.4	N.A.
Zaire							
First half 1973	Exports	30.1	25.1	31.1	27.3	2.4	N.A.
	Imports	47.0	12.5	41.2	23.2	0.6	N.A.
	Trade balance	-16.9	12.6	-10.1	4.1	1.8	N.A.
First half 1974	Exports	29.2	45.4	50.0	58.1	2.6	N.A.
	Imports	77.9	23.2	56.7	21.2	2.3	N.A.
	Trade balance	-48.7	22.2	-6.7	36.9	0.3	N.A.
	Trade balance change	-31.8	9.6	3.4	32.8	-1.5	N.A.

1. Individual developed country official trade publications of exports and import values, by country of destination and by country of origin. Data have been converted to US currency and/or f.o.b. basis where required, with the following exceptions: for Canada, reexports are excluded from developing country data, and for the United States, exports are f.a.s. and imports are on customs value basis.

2. IMF data, except data for South Korea for first half 1974.

3. First quarter 1974.

4. January-May 1974.

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LDCs: FINANCIAL RESOURCES DWINDLING

The successful financing of large trade deficits by non-OPEC LDCs in the first half of 1974 masked an increasingly serious payments position. The short-term outlook is for further deterioration in LDC trade balances with both OPEC and developed countries. Private credit will be harder to obtain. A substantial drawdown of reserves during the next 12 months is likely, and forced cutbacks in imports may be necessary in some cases.

The non-oil LDCs had an estimated current account deficit of \$8 billion to \$9 billion in the first half of 1974. Preliminary data indicate that they received aid of \$6 billion to \$7 billion and arranged for medium-term Eurocurrency loans of \$4.2 billion. As a result, reserves increased by \$2 billion to \$32.5 billion, which is widely scattered except for Brazil's \$6 billion. In the first half of 1973, in contrast, when prices of many commodities other than oil were soaring, reserves rose by \$6 billion with net capital inflows of only \$2 billion.

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Because of further increases in prices, the LDC oil import bill will be about \$1 billion to \$2 billion higher in the second half than in the first. Furthermore, the LDC trade deficit with the developed countries will worsen until the developed economies pick up. Unless measures are taken to reduce imports, the LDC current account deficit will rise by another \$2 billion to \$3 billion in the second half of 1974.

The LDCs cannot count on maintaining or increasing their present borrowing levels from private capital markets. Unless they receive sharply higher aid payments, they will be hard pressed to cope with their rising deficit.

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US TRADE SURPLUS WITH WESTERN EUROPE MOUNTS

Western Europe's massive trade deficit with the oil producers this year is being aggravated by a deteriorating balance with the United States. In the first seven months, US exports to the area grew by 42% from the year-earlier level - almost twice the rise for US imports. The US surplus with Europe jumped from \$1 billion (imports f.o.b.) in the first seven months of 1973 to \$3 billion this year. The gain covered about one-fifth of the rise in the US oil import bill.

Weak demand in the United States held the growth in US import volume to a mere 1% while prices rose by 23%. Purchases of steel, machinery, clothing, and certain agricultural products actually declined in real terms. In contrast, purchases of European petroleum products showed a large increase in volume.

On the US export side, sagging grain sales were offset by increased soybean shipments and by sharply higher prices for agricultural products in general. Industrial exports remained strong, with a 41% gain evenly divided between volume and price increases. Above-average increases in volume were posted for metals, wood products, and textiles. The slump in the international airline industry caused the volume of aircraft exports to dip.

In a reversal of recent trends, the US trade deficit with West Germany narrowed to \$770 million. Revaluation of the mark has been an important factor in declining US purchases of German automobiles and other durables. The US trade balance also improved with all other major countries in Western Europe.

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US - West European Trade¹

	Million US \$			
	Jan-Jul 1974		US Balance Jan-Jul	
	US Exports	US Imports	1973	1974
Total Western Europe	16,766	13,506	922	3,260
Of which:				
European Community	12,897	10,951	512	1,946
Of which:				
Belgium/Luxembourg	1,362	928	185	434
France	1,683	1,199	322	484
Italy	1,671	1,544	96	127
Netherlands	2,331	814	1,119	1,517
United Kingdom	2,580	2,310	-117	270
West Germany	2,943	3,711	-1,042	-768

1. F.o.b.

The US surplus with Western Europe is expected to climb to \$5 billion by yearend. Although the volume of US agricultural sales will be held down by disappointing grain harvests, prices should be well above the level prevailing earlier this year. Growth in bilateral industrial trade in the last five months of 1974 will be sluggish, since GNP gains in both the United States and Europe are expected to be small.

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USSR: LONG-RANGE PROSPECTS FOR HARD CURRENCY TRADE*

The sharp increases in world prices for oil, gold, and other primary exports have dramatically improved Soviet earnings in hard currency markets. In 1974 the USSR will probably achieve a trade *surplus* with hard currency countries of \$1.5 billion in contrast with the *deficit* of \$1.75 billion in 1973. The USSR almost certainly will continue to earn ample foreign exchange to pay for all the Western plants and technology it can absorb over the next few years.

* This is an abstract of the forthcoming ER IR 74-27, *USSR: Long-Range Prospects for Hard Currency Trade*, October 1974,

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This striking improvement in Soviet export prospects presents Moscow with policy choices it lacked when large trade deficits had to be covered by Western credits and drawdowns of gold holdings. Soviet officials now have more flexibility in weighing:

- the extent to which the USSR seeks and uses Western credit, i.e., cash will be paid unless terms are deemed especially favorable;
- the choice between sales of gold and the buildup of gold reserves; and
- the terms offered to Western countries on commodity payback ventures.

Outlook for 1974

Soviet exports probably will rise by 55% in 1974, chiefly because of the more than doubling of the price obtained for oil – \$10 or more per barrel in 1974, compared with an average of \$4.50 in 1973. Oil alone could earn the Soviets \$3 billion in 1974, and total hard currency exports may reach \$7.5 billion. At the same time, the record grain harvest of 1973, which permitted the rebuilding of stocks, will mean substantially reduced outlays for agricultural products.

Outlook after 1974

Merchandise Exports

Although price increases in international markets are expected to tail off after 1974, world demand for many of the USSR's major exports – such as oil, natural gas, coal, timber, and diamonds – should remain strong. The USSR should also be able to increase the physical volume of exports of these and other goods. During the remainder of the 1970s, earnings from exports alone could support an annual import growth of 22%.

In the 1980s, export growth probably will slow down as the quantity of oil available for export diminishes and deliveries of natural gas to Western Europe level off. The annual rate of import growth sustainable from merchandise exports will fall to roughly 10%.

Commodity Payback Ventures

Additional export revenues may be earned from commodity payback ventures. The Soviets have concluded a number of these ventures involving Western assistance

USSR: Hard Currency Balance of Payments

	Million US \$	
	1973	1974 ¹
Exports (f.o.b.)	4,817	7,500
Imports (f.o.b.)	6,566	6,000
Merchandise balance	-1,749	1,500
Net services and transfers	-127	-94
Current account balance	-1,876	1,406
Net medium-term and long-term capital	1,009 ²	552
Basic balance	-867	1,958
Non-monetary gold	950	3
Net short-term capital, change in foreign currency balances, and errors and omissions	83	N.A.

1. Estimated.

2. Including Soviet compensation payments of \$24 million in accordance with US lend-lease "pipeline" agreements.

3. About \$300 million to date.

in the development of natural gas, chemical, timber, and coal resources in return for long-term Soviet raw material exports.

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exports from such deals could increase Soviet import capacity by roughly \$4 billion annually in 1981-85, at a time when export earnings from traditional transactions are expected to decline.

Gold Sales

In contrast to the long-term effects of commodity payback ventures, a decision to sell gold would have an immediate impact on Soviet import capacity. At the estimated long-run price of \$150 per ounce, sales from current production alone could increase the average annual import capacity by about \$1.7 billion over the short run and by roughly \$2 billion in 1981-85.

Western Credits

Although the USSR will continue to draw on the large volume of Western credit already extended, Moscow may have little need to solicit additional credits to increase imports substantially during 1975-80. If they chose, however, the Soviets could increase credit drawings by up to 25% annually in 1975-80 without incurring serious problems of debt management. As long as Western governments continue

to offer long-term credits at interest rates below expected world inflation rates, Moscow presumably will continue to rely heavily on credits while curtailing exports of gold and/or goods whose real worth is expected to increase over time.

The use of credit in 1981-85 will be determined in part by the size and composition of Soviet debt carrying over from 1980. To compensate partially for the expected decline in the growth of merchandise exports, the Soviets might make extensive use of Western credits. Heavy drawings could increase annual import capacity by \$3 billion or more at the expense of greatly increased debt and debt service.

Likely Policy Options and Import Growth

In 1975-80 the USSR has a number of options made available by the striking switch in its balance-of-payments position. Without an undue increase in its debt service, the USSR could sustain an average annual growth of hard currency imports of up to 30% in money terms and perhaps 20% in real terms. Because a major portion of increased imports will consist of advanced Western plants and technology, the USSR undoubtedly can not assimilate imports at this capacity level. At the same time, past Soviet policy suggests that augmented import capacity will *not* be used to support a massive increase in imports of consumer goods or to build large hard currency balances. Most likely is a combination of

- increase in the rate of growth of imports (but short of potential maximum growth);
- discreet use of Western credits;
- sales of gold below current production levels, and
- signing of commodity payback deals only under favorable terms.

In 1981-85, Moscow's policy mix will be affected by (1) the extent to which credit was used in 1975-80 and (2) the degree of Soviet foresightedness in arranging commodity payback deals. Even under the most favorable conditions and with maximum credit use and sale of all current gold output, the annual average growth of import capacity in 1981-85 probably would not be much more than 15% in money terms, considerably less in real terms. Nonetheless, the \$30 billion in annual import capacity forecast for this period almost certainly will be adequate to satisfy Soviet needs for Western equipment, technology, and other goods.

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25X1

Notes**OECD Secretary-General Concedes Economic Weakness**

Secretary-General Emile van Lennep now doubts that the OECD's projection of an early upturn in the industrial economies will materialize. Our estimates put growth for the six major foreign OECD economies at an annual rate of only 1.5% in the second half of 1974, compared with the OECD's 3.7%. Van Lennep maintains his position that an economic slowdown must be accepted to wind down inflation.

[REDACTED]

STAT

Soviets Attempt to Buy Grain

The current Soviet attempt to buy 2.4 million tons of corn and 1 million tons of wheat from US dealers reflects shortfalls in Soviet production this year. We have just trimmed our estimate of the 1974 grain crop from 198 million to 195 million tons -- 10 million tons below the official goal and 5 million to 15 million tons below requirements. Unfavorable weather has reduced the wheat crop to an estimated 85 million tons -- the smallest since 1969. Perhaps 20% of the corn crop will not mature in time to be harvested for grain because of late planting and a cool growing season. Moscow's entry into the grain market suggests that the regime will not jeopardize its livestock expansion program by permitting a sharp rundown in carryover stocks of grain, estimated at 20 million to 30 million tons.

[REDACTED]

25X1

USSR: Sugar Outlook Dims

The sugar beet crop has been hurt by late-summer cold weather. Undersized sugar beets in several important producing areas and extensive flowering in other areas will lead to a crop at least 5% short of the planned goal of 91.3 million tons. Nonetheless, coupled with the usual imports from Cuba of about 2 million tons, this year's crop should cover domestic requirements.

[REDACTED]

25X1

Mexico: Continuing Heavy Need for US Corn

Widespread crop damage in Mexico has tripled the earlier estimate of corn import needs in 1974/75 to 1.3 million tons. Foodgrain imports -- 90% of which traditionally come from the United States -- thus will probably continue at the high level of the previous two years. Corn production in 1974/75 is now put at

~~Secret~~

8.1 million tons, 15% below initial forecasts. The crop has been reduced by early frost, which destroyed 700,000 tons, and by scattered damage from drought and hurricane Fifi.

25X1

China-Philippines Trade Agreement

The recent agreement between Manila and Peking provides a solid basis for expansion of trade and reduction of the Philippines' near-total dependence on Arab oil suppliers. China has pledged "considerable" crude oil exports, and Manila is expected to request 15,000 b/d (8% of annual requirements) in 1975 for openers. Manila expects the figure to rise to 50,000 b/d by 1979. Philippine exports to China will feature lumber, coconut products, sugar, and copper.

25X1

Publications of Interest*

North Korea's Economic Tilt Toward the West

(ER IR 74-25, October 1974,)

25X1

North Korea has quietly turned to the West as a major source for its modern machinery and equipment. This shift in policy reduces Pyongyang's longstanding dependence on the USSR and other Communist countries for capital equipment. Since 1970, North Korea has signed contracts with firms in Japan and Western Europe for almost \$600 million worth of industrial plants and related equipment, a sizable portion on credit.

The Economic Situation in South Vietnam, September 1974

(ER IR 74-26, September 1974,)

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Declining food prices slowed the rate of inflation in September; the overall price index is up by nearly 40% this year. This issue also discusses (1) improvement in Saigon's rice stocks over last year, (2) evidence that monetary expansion has contributed to inflation in 1974, (3) continued erosion of real incomes, and (4) progress in providing credit for industrial expansion through South Vietnam's two main industrial credit banks.

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INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Percent Change		Average Annual Growth Rate Since		
	Latest Quarter	from Previous Quarter	1970	1 Year Earlier	Previous Quarter
United States	74 II	-0.4	3.6	-1.2	-1.6
Japan	74 II	0.6	5.7	-3.3	2.4
West Germany	74 II	-0.7	3.1	1.1	-2.9
France	73 IV	1.8	5.8	5.7	7.3
United Kingdom	74 I	-3.5	1.9	-4.4	-13.3
Italy	73 IV	1.9	3.7	5.3	7.7
Canada	74 II	-2.7	5.0	2.3	-10.3

WHOLESALE PRICES

Industrial

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Aug 74	2.4	9.8	27.5	32.9
Japan	Aug 74	1.0	11.3	32.8	14.9
West Germany	Jun 74	0.2	7.0	13.1	10.3
France	Aug 74	-0.7	12.4	30.3	-2.5
United Kingdom	Aug 74	1.3	11.3	25.3	19.3
Italy	May 74	0.7	14.5	48.3	44.1
Canada	Jun 74	0.1	10.9	23.5	16.1

INDUSTRIAL PRODUCTION*

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Aug 74	-0.4	4.0	-1.0	1.3
Japan	Aug 74	-2.2	5.6	-4.9	-11.6
West Germany	Jun 74	-2.8	2.7	-1.1	-2.2
France	Jun 74	0.8	6.2	5.0	2.2
United Kingdom	Aug 74	0	2.5	-0.2	5.4
Italy	Jul 74	-2.5	5.0	4.2	1.6
Canada	Jul 74	0.8	5.8	1.9	-5.0

CONSUMER PRICES

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Aug 74	1.3	6.4	11.2	13.2
Japan	Aug 74	1.0	11.5	25.4	15.4
West Germany	Aug 74	0	6.1	6.9	2.5
France	Aug 74	0.8	8.2	14.5	13.4
United Kingdom	Aug 74	0.1	10.4	16.8	8.4
Italy	Aug 74	2.1	10.3	20.5	28.9
Canada	Aug 74	1.0	6.7	10.8	12.7

RETAIL SALES*

Current Prices

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Aug 74	0.6	10.1	9.9	13.5
Japan	May 74	4.7	13.0	15.9	-1.7
West Germany	Jun 74	-1.5	7.7	2.0	1.5
France	May 74	6.2	8.5	18.1	1.3
United Kingdom	Jun 74	3.3	11.9	14.7	8.3
Italy	Apr 74	0.9	17.4	27.0	34.0
Canada	Jul 74	1.7	12.4	16.2	24.6

MONEY SUPPLY*

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Aug 74	0.3	5.9	5.4	3.4
Japan	Jun 74	1.6	17.9	15.7	17.6
West Germany	Jun 74	2.0	9.2	5.3	10.4
France	Jun 74	1.3	12.7	10.7	15.6
United Kingdom	Aug 74	1.2	8.8	0.6	3.5
Italy	Jan 74	0.1	20.7	22.7	22.5
Canada	Aug 74	-0.7	12.3	7.3	0

MONEY-MARKET RATES

	Representative Rates	Latest Date	Percent Rate of Interest		
			1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Dealer-placed finance paper	Sep 25	10.93	8.75	9.00
Japan	Call money	Sep 18	13.00	8.75	12.63
West Germany	Interbank loans (3 Months)	Sep 25	9.40	13.84	9.60
France	Call money	Sep 18	13.50	10.75	14.50
United Kingdom	Sterling interbank loan (3 mo)	Sep 25	11.77	13.13	13.27
Canada	Finance paper	Sep 25	11.19	8.75	11.00
Euro-Dollars	Three-month deposits	Sep 25	11.60	10.80	13.41

*Seasonally adjusted.
**Average for latest 3 months compared with average for previous 3 months.

9 October 1974
Office of Economic Research/CIA

Note: US data provided by US government agencies

EXTERNAL ECONOMIC INDICATORS

EXPORTS*

f.o.b.

	Latest Month	Cumulative			Percent Change
		Million US \$	Million US \$		
			1974	1973	
United States	Aug 74	8,370	83,289	44,014	43.8
Japan	Aug 74	4,865	34,365	22,847	51.7
West Germany	Aug 74	7,907	58,803	42,466	38.0
France	Aug 74	4,044	30,297	23,434	29.3
United Kingdom	Aug 74	3,237	23,403	18,618	25.7
Italy	Jun 74	2,270	13,288	9,401	41.3
Canada	Aug 74	2,897	21,189	16,329	29.8

EXPORT PRICES

US\$

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
United States	Aug 74	5.7	12.9	27.9	43.9
Japan	Aug 74	0.1	16.1	25.3	-0.1
West Germany	Jul 74	2.2	15.3	7.9	17.9
France	May 74	0.6	14.3	19.7	58.1
United Kingdom	Apr 74	5.9	12.5	23.3	109.7
Italy	Apr 74	5.8	13.3	29.4	73.9
Canada	May 74	1.5	14.9	44.1	59.3

IMPORTS*

f.o.b.

	Latest Month	Cumulative			Percent Change
		Million US \$	Million US \$		
			1974	1973	
United States	Aug 74	9,502	85,402	44,870	45.8
Japan	Aug 74	4,474	35,396	19,926	77.6
West Germany	Aug 74	6,067	42,419	32,617	30.1
France	Aug 74	4,489	33,157	22,621	46.6
United Kingdom	Aug 74	3,986	31,469	21,385	47.2
Italy	Jun 74	2,827	17,338	10,708	61.9
Canada	Aug 74	2,866	20,597	14,884	38.4

EXPORT PRICES

National Currency

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
United States	Aug 74	5.7	12.9	27.9	43.9
Japan	Aug 74	4.1	11.3	42.8	39.8
West Germany	Jul 74	3.4	5.4	18.0	23.0
France	May 74	0.7	10.4	29.4	46.8
United Kingdom	Apr 74	3.8	12.6	28.8	57.7
Italy	Apr 74	5.6	13.8	39.6	63.6
Canada	May 74	0.8	12.4	38.2	48.5

TRADE BALANCE*

f.o.b./f.o.b.

	Latest Month	Cumulative (Million US \$)			Change
		Million US \$	1974		
			1974	1973	
Japan	Aug 74	-1,137	-2,113	-856	-1,257
West Germany	Aug 74	391	-1,031	2,721	-3,752
France	Aug 74	1,840	16,184	9,849	6,335
United Kingdom	Aug 74	-445	-2,859	813	-3,672
Italy	Aug 74	-749	-8,066	-2,767	-5,299
Canada	Aug 74	-556	-4,050	-1,307	-2,743
	Aug 74	11	592	1,445	-853

IMPORT PRICES

National Currency

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
United States	Aug 74	2.9	19.8	53.4	34.9
Japan	Aug 74	2.6	17.3	77.8	16.6
West Germany	Jul 74	0.4	6.8	32.7	21.8
France	May 74	4.0	16.0	63.0	74.4
United Kingdom	Apr 74	3.5	21.5	61.6	89.5
Italy	Apr 74	5.4	26.0	90.8	163.4
Canada	May 74	3.4	10.6	28.7	54.2

BASIC BALANCE**

Current and Long-Term-Capital Transactions

	Latest Period	Cumulative (Million US \$)			Change
		Million US \$	1974		
			1974	1973	
United States*	74 II	-2,740	-954	-2,184	1,210
Japan	Aug 74	-233	-9,284	-8,020	-3,263
West Germany	Jul 74	288	5,073	4,929	144
France	73 IV	-431	N.A.	-2,471	N.A.
United Kingdom	74 I	84	84	-1,033	1,117
Italy	74 I	-2,037	-2,037	975	-3,012
Canada	74 I	-195	-195	-235	40

EXCHANGE RATES

As of 4 Oct 74

	US \$ Per Unit	Percent Change from			
		Spot Rate	18 Dec 1971	19 Mar 1973	27 Sep 1974
Japan (Yen)	0.0033	21.06	2.86	12.17	-0.65
West Germany (Deutsche Mark)	0.3830	52.35	23.43	8.16	1.73
France (Franc)	0.2110	4.51	7.16	4.26	0.24
United Kingdom (Pound Sterling)	2.3350	-16.33	-10.39	-5.12	0.09
Italy (Lira)	0.0015	-5.87	-12.38	-14.86	-0.33
Canada (Dollar)	1.0158	10.13	1.60	1.81	0.08

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		Billion US \$	Jun 1970	1 Year Earlier	Months Earlier
United States	Aug 74	15.5	14.5	12.9	14.9
Japan	Sep 74	13.2	4.1	14.8	13.4
West Germany	Jul 74	33.9	8.8	34.1	33.8
France	Aug 74	8.5	4.4	11.2	8.1
United Kingdom	Sep 74	7.2	2.8	6.4	6.7
Italy	Jun 74	5.3	4.7	6.0	6.7
Canada	Sep 74	5.8	4.3	5.7	6.1

TRADE-WEIGHTED EXCHANGE RATES**

As of 4 Oct 74

	Percent Change from			
	Dec 66	17 Dec 1971	19 Mar 1973	27 Sep 1974
United States	14.15	-4.89	1.70	0.26
Japan	12.81	-0.71	12.53	0.96
West Germany	30.31	13.35	8.33	1.08
France	-16.49	-3.15	-5.61	0.66
United Kingdom	-34.75	-20.54	-6.14	0.61
Italy	-27.00	-25.66	-18.74	-1.23
Canada	7.73	1.14	2.78	0

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

***Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.

9 October 1974